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Increasing the Social Security Retirement Age Cuts Benefits and Drives Up Administrative Costs

Background

Many proposals for addressing the projected long-term shortfall in the Social Security Trust Fund call for increasing the retirement age. For example, the Bowles-Simpson plan proposes an increase in the retirement ages required for both early and full retirement benefits.¹ What is not discussed is the serious long-term negative impact these proposals would have on all beneficiaries, especially low wage workers.

The Issue

Raising the retirement age:

Cuts Benefits for All — The proponents of these proposals attempt to justify them by pointing to increases in longevity over the last several decades² and suggest this means that people should be able to work longer. However, the nation's experience with the increase in retirement age enacted in 1983 tells us this is not the case. Although the retirement age has been increased from 65 to 66, people are not working an additional year. In fact, beneficiaries are claiming benefits at an earlier age today than they were in 1983. This should not be surprising since low wage workers rarely have the option of working longer. Large numbers are no longer able to work because of a disability while still others can no longer work because nobody will hire them after they are 60 years old.

The only observable effect of the increase in retirement age is a 6.5% reduction in monthly benefits over what they would have been had the retirement age remained at age 65. When the retirement

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- 1 The National Commission on Fiscal Responsibility and Reform. *The Moment of Truth* (December 2010) (Recommendation 5.4)
 - 2 In doing so, they often cite data for increases in life expectancy at birth, neglecting to mention that most of that increase is the result of decreased infant mortality.



age goes to age 67 as also provided in the 1983 legislation, the cut will be 13%. If we raise the retirement age to 70 as some have proposed, the result will be close to a one-third cut in benefits. In addition, any increase in the retirement age will add to the considerable administrative burden that the Social Security Administration (SSA) already faces and cause the onset of lifelong hardship for many as they approach retirement age.

Increases the Number of Disability (SSDI) Applications and Beneficiaries — According to a November 2010 report by the Government Accountability Office (GAO Report), raising either the early or full retirement age will increase the number of applications to and beneficiaries of the Social Security Disability Insurance program (SSDI).³ As a result, SSA will face a higher workload of disability claims, which are far more resource-intensive than retirement claims.⁴ To start, the initial processing of these claims is far more resource intensive because of the need to gather reports from medical providers, obtain an employment history, pay for consultative exams and then pay for an analyst to review and make a determination based on these reports. Also, a far higher percentage of these cases are appealed, with the majority of those who appeal ultimately obtaining benefits. In fact, almost all claims that go to the hearings level in the SSA administrative appeal process are disability claims, even though disability claims only account for a small percentage of SSA's total caseload. Even after a Social Security Disability claim has been approved and the person is receiving benefits, the demand on SSA resources continues with the need to schedule continuing disability reviews and to monitor earnings to assure continued eligibility.

Increases the Number of SSI Claims — An increase in the retirement age will bring the Social Security benefits of many retirees and people with disabilities below the financial eligibility level for the needs based Supplemental Security Income (SSI) program. Thus any increase in the retirement age will result in an increase in the number of SSI claims. These claims, which are administered by the Social Security Administration, are far more resource intensive because of the SSI program's byzantine financial eligibility rules and the need for regular reporting of income and resources.

Strains SSA Staff — The SSA is already understaffed. As of 2009, the average processing time for an initial SSDI application was 119 days. If the case went to a hearing, the processing time was 812 days.⁵ The strain on SSA resources can also be seen in even more egregious fashion in the agency's general failure to even process appeals from individuals who are disputing an agency determination on an issue other than a disability determination.

3 Government Accountability Office. *Raising the Retirement Ages Would Have Implications for Older Workers and the Disability Rolls* (November 2010) ("Raising the [early retirement age] would postpone eligibility for retirement benefits and could cause some older individuals with work-limiting health conditions to apply for [SSDI] instead of waiting to claim retirement. Raising the [full retirement age] reduces retirement benefits for individuals who retire early, and could create a financial incentive to apply for [SSDI] benefits, which are not reduced.")

4 Id. At 1

5 Id At 19



Causes Longer Processing Times and Hardship — Without additional funding, increasing the retirement age will cause even longer processing times, put additional stress on Social Security offices, and result in real hardship for applicants, especially those who will be seeking benefits based on disability because of the increased retirement age. While waiting on a decision regarding an initial application or appeal, individuals often receive minimal or no income, and cannot work at all without putting their claim in jeopardy. Many applicants become homeless waiting for a response to their application or appeal, while others rely on family and friends to make it through the process.

Offers No Viable Options for Older Workers in Poor Health — Under the Bowles-Simpson plan, many older workers with poor health or disabilities will not have viable options. According to the GAO Report, over 27% of adults who were 60-61 years old from 1998 to 2008 reported that their health limited their ability to work.⁶ The disability rate doubled as a cohort aged from age 55 to 64.⁷ African Americans, Hispanics, and the poor all had rates of reported disability that exceeded 50% by age 64.⁸ For those disabled enough to qualify for SSDI, processing a disability claim can take years. And, no Social Security benefits are available for individuals who are only partially disabled.

Offers Limited Savings — For all the hardship that the proposed heightened retirement ages will create, it will not result in the savings that the Bowles-Simpson plan claims. SSA actuaries project that an increase in the early retirement age will actually increase costs, whereas any gains obtained by increasing the full retirement age will be significantly offset by added costs to the SSDI and SSI programs.⁹ Thus, an increase in the retirement age will likely increase processing times for disability benefits and leave older workers with fewer options when they can no longer work.

Recommendations

Social Security is hugely popular, and the nation's most successful social program. Polls show that Americans across the political spectrum, including Tea Party members, are opposed to cutting benefits in order to reduce the federal deficit, or any other reason.¹⁰

- **Keep Social Security out of deficit talks.** Social Security does not contribute to the deficit. In fact, Social Security has a 2.6 trillion dollar surplus that will be used to pay

6 Id At 23

7 Id At 27, citing Richard W. Johnson, Melissa M. Favreault, and Corina Mommaerts, "Work Ability and the Social Insurance Safety Net in the Years Prior to Retirement," (Washington, D.C.: Urban Institute, The Retirement Policy Program Discussion Paper 10-01, January 2010.)

8 Id At 28

9 Id at 33

10 AARP. Social Security 75th Anniversary Report: Public Opinion Trends. August 2010. Lake Research Partners. Voters' Attitudes on Social Security: Findings from National Survey of Voters for Social Security Works. March 2011.



out benefits in coming years. Social Security must honor the commitment it made to millions of Americans who paid into the system.

- **Reject any proposal that raises the retirement age.** Raising either the early or full retirement age cuts benefits no matter what age an individual retires, and will add to the administrative burden of processing Social Security Disability and Supplemental Security Income applications.
- **Preserve funding for SSA administrative functions.** If funding is cut further, wait times for claimants, especially those seeking benefits on the basis of disability, will rise.
- **Raise the cap on taxable wages for workers and scrap the cap for employers.** Right now, workers and employers do not pay Social Security taxes on wages exceeding 106,800 per year. Closing this regressive tax loophole, as proposed by advocates on all sides of the issue, will strengthen Social Security for the long-term.

The National Senior Citizens Law Center is a non-profit organization whose principal mission is to protect the rights of low-income older adults. Through advocacy, litigation and the education and counseling of local advocates, we seek to ensure the health and economic security of older adults with limited income and resources, and access to the courts for all.